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MANAGING ENVIRONMENTAL RISK

Across the Data Center Lifecycle



Managing Environmental Risk Across the Data Center Lifecycle

The rapid expansion of artificial intelligence, cloud computing and digital services is driving demand for new data center capacity across the United States. Developers and operators are moving quickly to secure land, power and infrastructure, often under pressure to bring facilities online. However, the suitability of a site depends on more than its access to power or proximity to a major market.

Environmental conditions can affect acquisition decisions, construction schedules, financing, operating costs and the long-term value of an asset. These considerations extend across the full facility lifecycle, from site selection and construction through operations, expansion and eventual decommissioning, making it important to identify and address environmental risks early.

The challenge for developers, operators and investors is understanding where environmental risks may emerge and addressing them before they affect development or operations.

When evaluating brownfield or previously industrial sites, developers may encounter:

- Legacy soil and groundwater contamination
- Underground storage tanks
- Historical chemical or fuel releases
- Previously unidentified waste disposal issues
- Emerging contaminants, such as PFAS

A site's history can shape its future

The competition for land and infrastructure is leading some developers to consider brownfield and formerly industrial properties. These sites may offer favorable zoning, established utility connections and proximity to critical infrastructure. They may also carry contamination associated with past manufacturing, chemical handling, fuel storage or waste disposal activities.

Some conditions may not become apparent until excavation or other construction activity begins. At that point, an environmental issue can become a project issue, potentially requiring additional investigation, changes to construction plans, remediation or regulatory engagement.

Environmental due diligence can help stakeholders understand how a site's history may affect acquisition terms, development costs, financing requirements and future operations.



PFAS adds another layer to site evaluation

Per- and polyfluoroalkyl substances, commonly known as PFAS, are receiving increased attention from regulators, lenders, investors and environmental professionals. These synthetic compounds were historically used in a range of industrial applications because of their resistance to heat, water and oils. They may be associated with manufacturing facilities, airports, military installations and properties where certain firefighting foams were used.

For data center stakeholders, PFAS may affect:

- Site acquisition and environmental due diligence
- Brownfield redevelopment projects
- Property transactions and financing reviews
- Environmental compliance obligations
- Long-term remediation liabilities

A site may contain historical PFAS contamination that was not identified or considered during earlier environmental assessments. Construction can uncover or disturb these conditions, potentially leading to further investigation, remediation requirements or regulatory oversight.

While PFAS has become an important area of focus, it represents just one component of a property's environmental risk profile. Evaluating site history, surrounding land uses and potential contamination pathways can help organizations better understand environmental liabilities and make more informed development and investment decisions.

Environmental risk continues after construction

Once a data center is operating, the infrastructure required to maintain continuous service introduces additional environmental exposures.

Cooling systems are a key example. Chilled-water, evaporative, direct-liquid and immersion cooling systems may use treatment chemicals, biocides, glycols or other substances that circulate through extensive piping networks. Equipment failures, chronic leaks, improper chemical handling and wastewater discharge issues can result in cleanup obligations, operational disruption or third-party claims.

Backup power systems create another area of concern. Diesel generators may be supported by aboveground or underground storage tanks, day tanks and fuel-transfer equipment. A release from any part of this infrastructure could affect soil, groundwater, stormwater or nearby property.

Lithium-ion batteries used in uninterruptible power supply systems can also introduce environmental considerations related to fires, electrolyte leaks, contaminated residue, transportation and end-of-life disposal. Although incidents may be infrequent, they can have significant operational and environmental consequences.

Not every environmental exposure involves a chemical release. Cooling systems, generators and electrical equipment may produce continuous noise that attracts concern from nearby residents and local officials. If not addressed, these concerns can contribute to disputes involving land use, quality of life, property values or effects on surrounding ecosystems.

Together, these risks demonstrate why environmental management should remain active throughout a facility's operation and any future expansion.



Managing risk before it becomes a disruption

While no organization can eliminate every environmental exposure, a disciplined approach can help identify potential issues before they affect project timelines, costs or operations.

Key areas of focus include:

- **Environmental due diligence:** Examine historical property use, potential contamination, storage tanks and other conditions before acquisition or development.
- **Operational monitoring:** Maintain inspection and maintenance programs for cooling infrastructure, fuel systems, battery installations and chemical storage.
- **Incident response planning:** Establish responsibilities and escalation procedures for spills, releases, fires and other environmental events.
- **Contractor and vendor oversight:** Define expectations for construction activities, chemical handling, waste transportation and disposal.
- **Community engagement:** Communicate proactively with regulators, local governments and community stakeholders.

These practices can help organizations identify emerging issues, clarify responsibilities and reduce the likelihood that an environmental event will cause an avoidable project or operational disruption.

The role of environmental insurance

Traditional property and casualty policies may contain pollution-related exclusions that limit how they respond to environmental events. Specialized environmental insurance can complement due diligence and operational controls by helping organizations address certain financial consequences of a covered pollution condition.

Contractors Pollution Liability coverage is intended to address pollution conditions arising from construction operations. Depending on the policy, it may provide coverage for third-party bodily injury and property damage, cleanup costs, transportation and disposal liabilities, and emergency response expenses.

Site Pollution Liability coverage is designed for pollution conditions associated with owned or operated locations. Available coverage may include on-site and off-site cleanup, third-party claims, natural resource damages, storage-tank exposures, legal defense and certain business interruption losses.

For larger developments, coordinated CPL and PLL programs may help create continuity between construction and operations while reducing potential gaps between the responsibilities of owners and contractors. The appropriate structure will depend on the site, project stage, contractual responsibilities and operational profile.



Building environmental risk into the data center strategy

Environmental risk can affect developers, facility owners and operators, hyperscale and colocation providers, real estate investors, infrastructure funds, contractors and organizations supporting power and utility development. Each may encounter the risk differently, but all benefit from addressing it early.

As data center investment continues, site-related contamination, PFAS, cooling chemicals, backup power systems, batteries and community concerns should be considered part of the broader business case for a facility. Bringing environmental, operational and insurance specialists into the conversation early can help stakeholders understand potential liabilities, make informed project decisions and prepare for events that could otherwise disrupt development or operations.

Gallagher brings together specialists in environmental liability, construction, property, cyber and data center risk to help organizations evaluate exposures, close coverage gaps and develop comprehensive risk management strategies. Whether you're assessing a new site, planning an expansion or reviewing operational risks, our team can help you make more informed decisions with greater confidence.



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